

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5771

**DEPARTMENT OF COMMUNITY, TRADE AND
ECONOMIC DEVELOPMENT**

Agency No. 103

July 1, 1995 Through June 30, 1996

Issue Date: February 28, 1997

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DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT

Agency No. 103

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Community, Trade and Economic Development included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There was a finding, which is listed in the Schedule of Findings following this Overview, for the Department of Community, Trade and Economic Development.

Brian Sonntag
State Auditor

December 31, 1996

DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
Agency No. 103
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. Department of Community, Trade and Economic Development (CTED) Should Establish Policies And Procedures That Verify State Grant Disbursements Are Used For Lawful And Authorized Purposes

Our confirmation tests of 48 CTED state grant disbursements revealed the following conditions:

- a. Four instances where the grantees were not able to provide evidence to sufficiently and properly support all direct and indirect costs that were charged to the state.
- b. One instance where cost overruns of another grant were charged to a CTED grant contract.
- c. One instance where the grantee was unable to provide evidence to sufficiently and properly support all direct and indirect costs of their subcontractors.
- d. One instance where the grantee had been improperly charging the state in advance for a grant contract that required payments to be on a reimbursement basis.
- e. Two instances where the grantees were billing for budgeted costs rather than for actual costs incurred as required by the contracts.
- f. One instance where the grantee did not provide documentation supporting its personnel costs.

Similar conditions were reported in the 1995 *State of Washington Single Audit Report*, Finding 52.

The state of Washington Office of Financial Management *Policies, Regulations, and Procedures* manual, Section 6.2.2.1.3.b prescribes the following requirements:

Disbursements are to be handled in such a manner as to ensure that the proper funds and accounts are charged; that the disbursement is used only for authorized purposes; and that laws, rules, and regulations governing the disbursement are followed.

Section 6.2.2.1.3.c states:

Controls are to be established to assure that all payments are made on a timely basis and in accordance with all purchase orders and contracts.

These conditions exist, in part, due to insufficient contract monitoring, unclear terms regarding contract compensation and payment, and a lack of agency-wide policies and procedures to ensure that all state grant disbursements are for lawful and authorized purposes.

Weaknesses, such as those cited above, increase the risk that state grant disbursements will not be used for lawful and authorized purposes.

We recommend that CTED review all contracts and contract monitoring associated with grant programs. We further recommend that CTED establish agency-wide policies and procedures that require verification that all state grant disbursements are for lawful and authorized purposes.

Auditee's Response

In summary, the audit finding indicates that procedures are inadequate to ensure verification of disbursements of state grants are for lawful and authorized purposes.

CTED concurs with the finding. The agency is in the process of reviewing all contracting, contract monitoring, and monetary disbursement procedures connected with grant programs. However, individual programs do verify that grant disbursements are for lawful and authorized purposes, at varying levels of detail. The audit finding has identified areas where improvements can be made in the areas of tailored contract language, fiscal monitoring review, and reimbursement documentation verification. Following this review, CTED will issue agency-wide policies and procedures that put best-practices in place in all program areas.

Auditor's Concluding Remarks

We appreciate the agency's timely response and commitment to resolution of these issues and thank agency staff for their cooperation and assistance during the audit.